



Date: October 18, 2011

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Interim Director
Department of Community Development
Subject: FY 2011-2012 Subrecipient Contract
The Historic Preservation Foundation of North Carolina

Executive Summary

As part of the FY 2010-11 Annual Action Plan, the Historic Preservation Foundation of North Carolina (PNC) was awarded \$125,000.00 in Community Development Block Grant (CDBG) funds for the acquisition and renovation of properties in the East Durham Historic District. Previously, PNC was awarded CDBG funds for the renovation of 213 S. Driver Street located within the Historic District and that property has been completed and is offered for sale.

PNC will use the funds towards the renovation of 106 North Driver Street and 1918 Hart Street. Both properties are vacant and were acquired by Habitat for Humanity of Durham with Neighborhood Stabilization Program funds (NSP) in 2010. PNC estimate a total investment of \$243,690.00 and a sales price ranging between \$100,000.00 and \$126,000.00. The CDBG funds will be used to subsidize the renovation costs and provide a forgivable second mortgage loan of \$25,000.00 per property as a homebuyer incentive. PNC has secured a revolving loan from the A.J. Fletcher Foundation for the balance of the construction financing.

Recommendation

The Department of Community Development recommends that City Council authorize the expenditure of up to \$125,000.00 in Community Development Block Grant (CDBG) funds and authorize the City Manager to execute a CDBG Subrecipient Contract with The Historic Preservation Foundation of North Carolina, Inc. in an amount up to \$125,000.00 in gap financing to renovate 106 North Driver Street and 1918 Hart Street.

Background

In 2009, This Old House Magazine named the East Durham Historic District as one of the nation's 51 best places to buy an old house. Developed around the turn of the century, the neighborhood was selected for its intact bungalows, Folk Victorians, and four squares which could be purchased at very modest prices. The magazine noted

that after years of decline, the neighborhood was beginning to attract renewed private investment.

PNC and Preservation Durham have launched "Project RED" (Revitalize East Durham) to encourage additional investment in preserving the neighborhood, particularly for homeownership. To support that effort, foreclosed or blighted and vacant homes in the neighborhood were targeted for acquisition under the City's NSP program. Acting as the City's acquisition agent in Northeast Central Durham, Habitat for Humanity acquired ten such properties within the district for rehabilitation through a neighborhood-based allocations committee. In addition to the two subject properties, the committee has already recommended the allocation of 309 Clay Street to PNC. The committee has allocated six historic homes to Habitat for renovation and one other property (2010 Ashe Street) remains available for allocation.

Other major investments in the neighborhood include the Holton School project and commercial revitalization activities near the intersection of Angier Avenue and Driver Streets with funding through the Office of Economic and Workforce Development. Additionally, the Center for Community Self Help recently announced plans to renovate the former Y.E. Smith school into a charter school.

Issues and Analysis

Because property values in the neighborhood are so low and because many of the homes require significant repair and modernization, one of the factors discouraging additional private investment is the disparity between acquisition/renovation costs and after rehab appraised value. Therefore, the funding being granted to PNC is structured in a way that will not further suppress comparable sales values. To illustrate this point, PNC estimates that 106 N. Driver Street will cost a total of \$152,800.00 to renovate. Of the total renovation cost, approximately \$60,000.00 will be funded by CDBG. If the entire \$60,000.00 were provided to PNC as a grant to write down costs, the estimated sales price of the home after renovation would be approximately \$92,800.00. However, by structuring the assistance such that \$35,000.00 is provided as a cost write down with \$25,000.00 available to income eligible the homebuyers in the form of a forgivable loan, the sales price can be increased to \$117,800.00. Such a structure provides the same level of affordability to the homebuyer while also providing the added benefits of a higher sales price and a substantial sales incentive.

Eligible homebuyers must have incomes at or below 80% of the area median and must meet the Department's homebuyer guidelines. The forgivable second mortgage loans will be held by the City and not by PNC.

The use of federal funds requires that all renovation work be in compliance with the Secretary of Interior's Standards for Historic Rehabilitation.

Alternatives

Without the subsidy provided under this program, renovation of these properties for homeownership would not be economically feasible

Financial Impact

CDBG funds have been budgeted and are available for this activity. There will be no impact on the general fund.

SDBE Summary

When detailed work write-ups are prepared, the Department will coordinate with the Department of Equal Opportunity and Equity Assurance to establish SDBE goals for the renovation work.

Attachments

No attachments